HOUSING MARKET OUTLOOK

Saguenay

Canada Mortgage and Housing Corporation

www.cmhc.ca

SPRING-SUMMER 2005

Economic overview

It is difficult to get an accurate idea of the significance of the job cuts announced by companies such as Alcan and Abitibi-Consolidated in recent years, since some of the workers impacted by these cuts are still receiving various types of benefits (vacation pay, severance allowance, employment insurance, etc.). However, these benefits will come to an end during 2005. While the effects of these cuts may be difficult to measure, an overall negative impact can be anticipated for the Saguenay census metropolitan area (CMA). According to the data released by Statistics Canada, the area is still not feeling, in terms of jobs, the negative weight of these decisions for the moment. In fact, it would appear that 1,250 jobs were created in 2003 and 3,275 in 2004 in the Saguenay CMA, rather positive results despite the fact that morale is plummeting. The wind of pessimism that has been blowing over the area for several quarters got stronger following the tabling, by the Commission for the Study of Public Forest Management in Quebec, of the "Coulombe" report, which proposes a reduction of 20 per cent in allowable cutting levels for certain types of trees, in relation to the current situation. This represents another grey cloud over the area, even though most of the negative effect will be felt in Lac-Saint-Jean. In light of these and other negative announcements not mentioned in this text, and given the completion of the Alouette project site in Sept-Îles, where several Saguenay area companies worked, we are forecasting a slowdown on the labour market, with totals of 70,500 jobs in 2005 and 69,500 in 2006. Overall, it can be expected that the effects will not be positive for the housing market.

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HOME TO CANADIANS

Demographic challenge

The accumulation of bad economic news has a direct impact on households and, especially, on young people, when the time comes to build a career plan. Many were relying on jobs in the large companies and even beginning their careers with them through summer jobs. Now, the employment outlook is different, and many are opting to leave the area to pursue their studies in other areas of the province and even settle there in the long term. This is what is reflected by the data on interregional migration from the Institut de la statistique du Québec. Since 1998-1999, nearly 16,000 people have left the Saguenay–Lac-Saint-Jean area to settle elsewhere in the province. In addition, according to the latest available data (2003-2004), the 15-29 years' age groups saw their population level decline by more than 1,500 people. The challenge for this area will therefore be to retain young people and, over the medium term, fill the jobs currently held by baby boomers who are nearing retirement.

Mortgage rates wil remain favourable

According to CMHC, mortgage rates will remain relatively stable in 2005 and then go back up progressively during 2006, along with the anticipated gradual rise in the key policy interest rates in Canada. The low level of inflation, the rapid increase in the Canadian dollar against the U.S. dollar and moderate economic growth will dictate the size and speed of the mortgage rate hikes in 2005-2006. The rate for a one-year loan should therefore not exceed 5.75 per cent from now until the end of 2006, while the five-year rate should remain below the 7-per-cent mark.

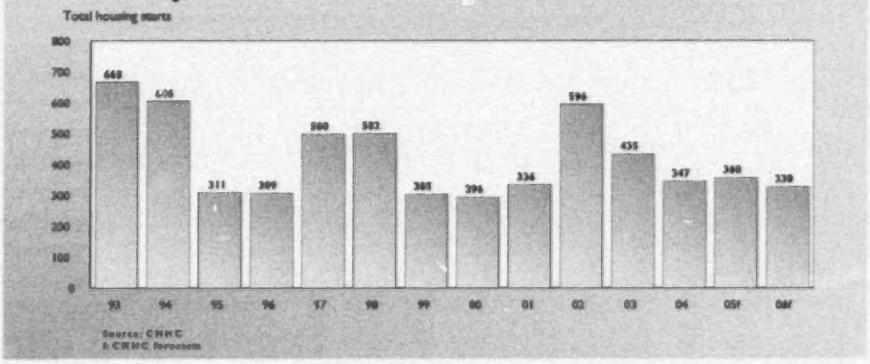
Residential construction expected to remain stable

Over the next two years (2005 and 2006), residential construction will post a period of relative stability. Even with positive employment figures in 2003 and 2004, the wind of pessimism that is sweeping over the area should cool down the enthusiasm of households and developers. Other factors, such as the anticipated gradual rise in mortgage rates, the negative net migration and a rental housing vacancy rate above the balanced range, will support this period of near stability. As a result, for all housing types combined, construction should get under way on 360 new units in 2005 and 330 in 2006.

Freehold home segment to stay constant

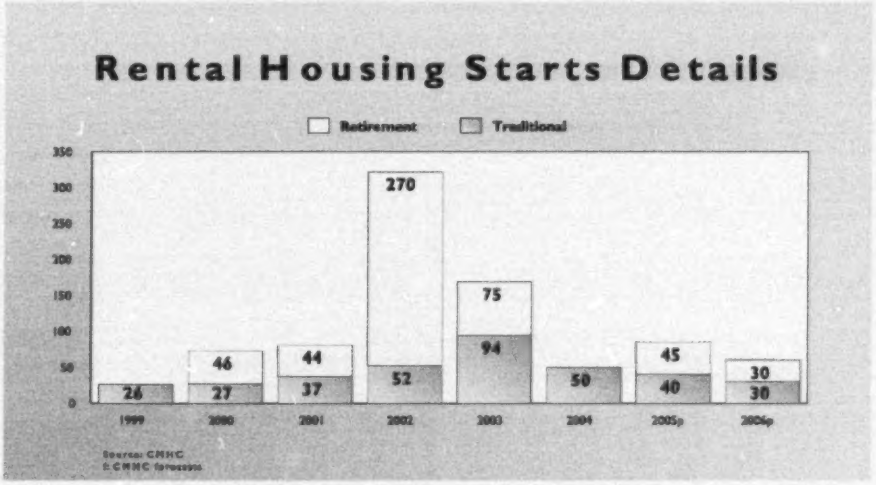
This component of the Saguenay CMA housing market has been the most constant since the beginning of the new millennium. This trend should not change over the next two years, and starts should remain below the 300-unit mark. Freehold homes include single-detached, semi-detached and row houses, as well as duplexes. The positive employment data in 2003 and 2004, combined with favourable mortgage rates, will support the current level of starts in the Saguenay CMA. We are forecasting 275 freehold housing starts in 2005, for a small decrease of 2 per cent from the 282 such units built in 2004. We anticipate that foundations will be laid for 240 new single-detached houses in 2005. Semi-detached, row and duplex homes, for their part, will be less numerous (with a total of 35 new units in 2005). These housing types, which are more affordable than single-detached homes, will be increasingly in demand. They represent an interesting solution for households who have difficulty in finding a property on the resale market, where supply is more and more limited and prices are on the rise. As a result, in 2006, single-detached home building is expected to slow down to 220 new units, while the construction of semi-detached, row and duplex houses should rise to 50 starts.

Residential Construction Expected to Remain Stable



Slowdown anticipated on the traditional rental housing market

The traditional rental housing segment posted renewed activity in 2003 before slowing down again in 2004, to end the year with 58 starts. The fact that the vacancy rate for privately initiated buildings with three or more units is above the balanced rate does not seem to have lowered morale among investors. However, a grey cloud has appeared in recent quarters, as construction material costs have risen faster inflation. This reality has a negative impact on the traditional rental market in that, to make a profit, developers will have to charge higher rents than the prevailing market rates. Considering this increase in costs, combined with the high vacancy rate, it can only be concluded that fewer traditional rental housing units will be built over the coming years. There should be 40 such starts in 2005 and about 30 in 2006.



Retirement rental housing: the calm after the storm

The arrival of 345 new retirement housing units on the Saguenay CMA market in 2002 and 2003 resulted in a transition period during which the vacancy rate for this type of housing temporarily jumped up to 7.7 per cent. The absorption of these units continued in 2004, and no new retirement housing starts were enumerated during that year. With the projects now almost fully absorbed, it can be expected that some units will be added to the market in 2005. The formation of households seeking this type of housing is such that, from one year to the next, potential demand rises by 50 units for the overall Saguenay CMA. Keeping this mind and closely following the market and client trends, it is anticipated that 45 new units of this type will be started in 2005.

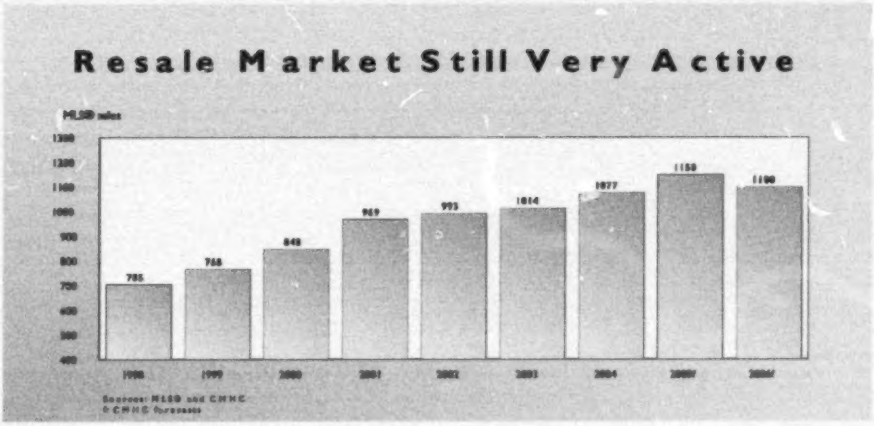
Surplus persists on the rental market

Since no new retirement housing units were built in 2004, only the 58 new traditional rental housing units will add to the rental housing stock for the October 2005 survey. Given the vacancy rate that has prevailed for several years, the negative net migration, the very slow rise in mortgage rates and the rather low morale of residents in the area, rental housing demand should be expected to remain relatively stable in 2005. At the time of our October 2005 survey, the rental housing vacancy rate should reach 5.4 per cent in the Saguenay CMA and then rise by 0.1 of a percentage point in 2006.

Resale market still very active

As seems to have been the case for the past several quarters, the low mortgage rates continue to stimulate the resale market, which reached a new peak in 2004, with 1,077 transactions recorded through the Service inter-agences / Multiple Listing Service (S.I.A.® / MLS®). Since 1998, there has been a steady rise in the number of the single-detached, semi-detached and row home sales on the overall Saguenay CMA territory. This increase in sales has been taking place together with a decrease in inventories since, over the same period, the number of sellers per buyer went from 9.5 in 1999 down to 4.6 in 2004. Declining inventories usually bring about a slowdown in sales, based on the assumption that buyers have more difficulty in finding a property that suits them. But, currently, it is the price gap between new and existing homes, with supply adapted to demand, that explains the high level of activity on the resale market. According to available data, the price difference between new and existing single-detached, semi-detached and row homes was over $40,000 in 2004. Is this not an in-

centive to turn to the existing home market? It is therefore difficult to anticipate any decrease in activity on this market, and this is why we believe that there will be 1,150 transactions in the Saguenay CMA in 2005, for an increase of 7 per cent over the 1,077 sales registered in 2004. For 2006, a slight downturn is expected, as transactions should reach 1,100 units, a level that remains high for the Saguenay CMA.



As for prices, they should be expected to rise faster than inflation on account of the limited supply, which favours sellers during negotiations. The increase should be slightly less rapid than in 2004, but still reach 4.1 per cent at the end of 2005. For 2006, it is anticipated that prices will go up by 3.0 per cent.

Forecast Summary
Saguenay Metropolitan Area
Spring-Summer 2005

	2003	2004	2005f	2004/2005	2006f	2005/2006
RESALE MARKET [1]						
MLS Sales®	1,014	1,077	1,150	7%	1,100	-4%
Average MLS price $ ®	94,625	100,371	104,500	4%	107,500	3%
NEW HOME MARKET						
Starts						
Total	435	347	360	4%	330	-8%
Freehold	274	282	275	-2%	270	-2%
Condominiums	0	7	0	--	0	--
Rental housing units	161	58	85	47%	60	-29%
Average price ($)						
Detached houses	141,379	145,208	152,000	5%	156,000	3%
Semi-detached houses	83,913	97,130	101,000	4%	105,000	4%
RENTAL MARKET (%)						
Vacancy Rate (october)	5.2	5.3	5.4	--	5.5	--
Average rent (2-bedroom)	457	459	462	--	467	--
ECONOMIC OVERVIEW						
Mortgage rate 1-year (%)	4.80	4.59	5.01	--	5.56	--
Mortgage rate 5-year (%)	6.39	6.23	6.28	--	6.72	--
Annual employment level	68,675	71,950	70,500	--	69,500	--
Unemployment rate (%)	11.5	10.9	11.3	--	11.5	--

[1] : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Saguenay-Lac St-Jean Real estate Board. Data could differ from those published previously.
f : CMHC forecasts
Sources: CMHC, SLSJREB and Statistics Canada

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